



Memorandum

TO: HONORABLE MAYOR AND
AND CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: March 18, 2004

Approved

Date

**SUBJECT: UPDATE AND PRESENTATION ON THE CUSP PROJECT, AN
INTEGRATED UTILITY BILLING, CUSTOMER SERVICE AND PERFORMANCE
MONITORING SYSTEM**

COUNCIL DISTRICT: City-wide
SNI AREA: N/A

RECOMMENDATION

It is recommended that the City Council accept the modified report for the CUSP project as directed by the Making Government Work Better Committee and direct staff to proceed with the CUSP RFP process and return to Council by the end of April with a recommended vendor for the purpose of procuring a software solution for an integrated utility billing, customer service and performance monitoring system.

BACKGROUND

On March 10, 2004, staff presented an update on the CUSP project; an integrated utility billing, customer service and performance monitoring system, to the Making Government Work Better (MGWB) Committee. The report (attached) provided a brief background on the communications to Council on the project and direction Council has given to staff related to the project.

Due to the existing budgetary constraints, staff determined it was necessary to review alternative options for consideration as part of the process prior to making a recommendation to the City Council. Four alternative options were considered, each of which included an analysis of the related risks, benefits and Return on Investment (ROI). Based on the analysis presented, the MGWB Committee directed staff to present the first two options to the City Council for consideration to move forward on the project. Staff will be making a modified presentation on the CUSP project to Council on March 23, 2004 as directed by the MGWB Committee.

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ANALYSIS

Pursuant to the MGWB Committee's direction, staff has developed a modified presentation for Council's consideration in moving forward on the CUSP project as follows:

Two Options for Consideration

Staff will be presenting two options to consider in moving forward with the CUSP (an integrated utility billing, customer service and performance monitoring system) project;

Proceed with CUSP - Option 1

Option one assumes that the City would proceed with CUSP as previously directed by the Council, complete the RFP evaluation process, and bring a recommended vendor solution to the City Council for consideration and approval to negotiate a contract. This option would implement CUSP through procurement of hardware and software for an in-house, licensed, off-the shelf software solution.

Outsourcing Technology - Option 2

The RFP also requested vendors to provide outsourcing technology solutions based on a contractual arrangement with the City for a period up to 10 years. This option would implement CUSP by procuring a licensed off-the shelf software solution in which the City would contract out for technology resources to maintain the system offsite. The analysis presented to the MGWB Committee was based on proposed costs from some vendors at 10 years and others at 5. To have a valid comparison with the other options analyzed over a 10 year period, staff had assumed in the model a cost inflation rate of 3% per year for proposals received that were less than a 10 year term. The MGWB Committee requested that staff work with the vendors to provide costs for the full 10 year period. Staff has received the 10 year costs from each of the proposers who were in the top tier of the rankings of the evaluation team and will provide the results to the Council during the presentation.

Return on Investment (ROI) Analysis

Staff has developed an ROI model using the average costs of the top tier proposals received in response to the RFP. Using a ten-year net present value criteria, the ROI was calculated for each option factoring in the total costs for implementation, on-going annual maintenance costs, estimated revenue opportunities, and potential efficiency savings not available on the existing systems.

Funding Options

Staff's initial ROI analysis included a funding plan that would expand the City's commercial paper (CP) program to fund the project related costs. The MGWB Committee requested that staff also review and analyze two additional funding options in lieu of external borrowing; 1) use existing balances that may be available in the respective utility funds and 2) borrow available balances from other funds. Staff will be presenting the results of this analysis during the Council presentation.

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COORDINATION

This report has been coordinated with the departments of Finance, Environmental Services and Information Technology, and the offices of the City Manager and the City Attorney.

SCOTT P. JOHNSON

Director, Finance Department